

AUDITING PROCUREMENT CARDS (P-CARDS)

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WHAT ARE P-CARDS?

An enhanced credit card used by business employees. It is similar to a MasterCard or Visa card, but contains more information that can be used to control purchases such as dollar limits and number of transactions within a given period or for an individual or group.

(From PCMag.com)

WHY USE P-CARDS?

- Reduce processing costs for invoices, purchase orders, check processing etc.
- Increase efficiency and control
- Assign cards to individuals or departments with variable controls
- Set dollar limits per transaction or month
- Limit to specific suppliers

WHY USE P-CARDS?

- Change purchasing authorization and spending criteria quickly and easily
- Buy more efficiently online, saving money and streamlining processes
- Better track spending with comprehensive, customized reports

FACTORS TO CONSIDER

- Does the taxpayer have a written policy for P-card purchases?
 - Spending cap?
 - Restricted to departments?
 - Restricted to accounts (travel & expense)?
 - Restricted to certain personnel?
 - Restricted to certain suppliers?

FACTORS TO CONSIDER

**Does the taxpayer
adhere to the policy?**

FACTORS TO CONSIDER

- **Is the taxpayer a direct pay permit holder?**
 - **Does the taxpayer exercise their direct pay authority when using P-cards?**

FACTORS TO CONSIDER

- How are P-card purchases accounted for?
 - Used for capital purchases?
 - Isolated to an individual expense account?
 - Isolated to a few expense accounts?
 - Spread throughout AP expense accounts?

AUDITING METHODS

Various auditing techniques can be utilized.
The appropriate method will be somewhat controlled by the research findings

1. Isolated (segregated) from AP for sampling
2. Combined with AP sample

AUDITING METHODS

P-card activity isolated to an individual or a few selected accounts:

1. Comprehensive review
2. Block (time based) sample
3. Simple random sample
4. Statistical Sample

SAMPLE DESIGNS

Simple Random Sample

Example Company A

Sample Design



Stratum	Count	Sum	Min SortID	Min Amount	Std Dev		Estimated \$ to Review
			Max SortID	Max Amount	Mean	Sample Size	
1	4,656	\$1,728,678.14	1	\$0.13	711.81	250	\$92,819.92
			4,656	\$12,166.00	371.28		

	Records		Dollars	
Sample Totals	250		\$92,819.92	
Population Totals	4,656	5.37%	\$1,728,678.14	5.37%

SAMPLE DESIGNS

Simple Random Sample with Comprehensive Range

Example Company A

Sample Design



Stratum	Count	Sum	Min SortID Max SortID	Min Amount Max Amount	Std Dev Mean	Sample Size	Estimated \$ to Review
1	4,594	\$1,430,966.49	1 4,594	\$0.13 \$3,000.00	456.51 311.49	200	\$62,297.19
2	62	\$297,711.65	4,595 4,656	\$3,016.00 \$12,166.00	1,659.19 4,801.80	62	\$297,711.65
		Records		Dollars			
Sample Totals		262	5.63%	\$360,008.84	20.83%		
Population Totals		4,656		\$1,728,678.14			

SAMPLE DESIGNS

Statistical Sample to Meet Ohio Criteria

Test Company B

Ohio Department of Taxation Statistical Sample Design



Stratum	Count	Sum of Amount	Min of Amount Max of Amount	StDev of Amount Avg of Amount	Min of SortID Max of SortID	Upper Limit	Required Sample Size	Estimated \$ to be Reviewed	Estimated % of \$ to be Reviewed
1	118,613	\$5,174,591.88	\$1.00 \$199.97	\$41.73 \$43.63	1 118,613	\$199.99	250	\$10,906.46	0.21%
2	14,896	\$7,627,561.25	\$200.00 \$2,978.60	\$411.75 \$512.05	118,614 133,509	\$2,999.99	250	\$128,013.58	1.68%
3	310	\$2,009,495.95	\$3,000.00 \$26,586.00	\$4,192.52 \$6,482.25	133,510 133,819	\$26,599.99	310	\$2,009,495.95	100.00%

Summary

Sample Size	810	0.61%	Sampling Frame	Full	Estimated Sampled Dollars	\$2,148,415.99	14.50%
Total Records	133,819	% of Target			Total Population Dollars	\$14,811,649.08	% of Target

SAMPLE DESIGNS

Statistical Sample with Additional Strata

Test Company B

Ohio Department of Taxation Statistical Sample Design



Stratum	Count	Sum of Amount	Min of Amount Max of Amount	StDev of Amount Avg of Amount	Min of SortID Max of SortID	Upper Limit	Required Sample Size	Estimated \$ to be Reviewed	Estimated % of \$ to be Reviewed
1	83,006	\$1,770,158.64	\$1.00 \$49.99	\$12.93 \$21.33	1 83,006	\$49.99	250	\$5,331.42	0.30%
2	37,626	\$3,830,203.28	\$50.00 \$224.95	\$46.30 \$101.80	83,007 120,632	\$224.99	250	\$25,449.18	0.66%
3	10,763	\$4,370,129.04	\$225.00 \$874.93	\$166.89 \$406.03	120,633 131,395	\$874.99	250	\$101,508.15	2.32%
4	2,279	\$3,467,489.73	\$875.13 \$4,959.78	\$809.85 \$1,521.50	131,396 133,674	\$4,999.99	250	\$380,374.04	10.97%
5	145	\$1,373,668.39	\$5,008.55 \$26,586.00	\$4,519.18 \$9,473.58	133,675 133,819	\$26,599.99	145	\$1,373,668.39	100.00%

Summary

Sample Size	1,145	0.86%	Sampling Frame	Full	Estimated Sampled Dollars	\$1,886,331.18	12.74%
Total Records	133,819	% of Target			Total Population Dollars	\$14,811,649.08	% of Target

AGREEMENT LETTERS

(GENERIC)

Sample Pull List:

Taxable transactions selected in the sample upon which tax was properly paid to vendors as allowed in the Direct Pay Procedural Agreement will be treated as non-errors. All other taxable items will be coded as positive amounts. The Parties agree that any transactions sampled will equitably represent all transactions that transpired during the audit period.

AGREEMENT LETTERS

(GENERIC)

Exceptions to the General Statistical Sample:

A. Inventory Stores Withdrawals:

B. Brokered Natural Gas:

C. Purchases Made With Procurement Cards:

*D. Leases Affected by H.B. 405, effective
2/1/02:*

AGREEMENT LETTERS

(GENERIC)

Exceptions to the General Statistical Sample:

C. Purchases Made With Procurement Cards:

Procurement card purchases (hereafter referred to as p-cards) were all charged to account # ?????. These transactions were not handled in the traditional sense since <TLN> seldom issued exemption certificates to suppliers when items purchased were non-taxable. Therefore, tax was paid on several transactions that qualified for tax exception. As a result, this account will be tested separately using a simple random sample of 250 transactions. A stratified sample will not be utilized on these transactions since the dollar ceiling established for these type purchases prohibits large purchases to be acquired with these p-cards. Therefore, the dollar amounts will be relatively small and stratification will not be necessary for these transactions. The total tax deficient listings for the sampled period will be divided by the total of all sampled transactions to determine the tax deficient percentage. This percentage will then be applied to all audit period purchases in account #???? to determine the total projected taxable amount for the entire audit. The applicable tax rates will be equitably applied based on the counties wherein errors existed to determine the total audit period tax liability due or overpaid on p-card purchases.

AGREEMENT LETTERS

(ACTUAL)

Procurement card purchases (hereafter referred to as p-cards) were charged to various expense accounts during the audit period. These transactions were not handled in the traditional sense since taxpayer seldom issued exemption certificates to suppliers when items purchased were non-taxable. Therefore, tax was paid on several transactions that qualified for tax exception. In order to examine a larger sample of p-cards than would traditionally be drawn in a stratified random sample of all transactions, a simple random sample will be drawn on a total of 300 p-card transactions. This cluster sample of p-card transactions will be evaluated for taxability. The sampled amounts determined to be tax deficient will be divided by the total of all cluster-sampled items to determine a percentage of error. If the result of this cluster sample indicates that tax was overpaid, a negative percentage of error will be calculated. The percentage of error calculated by this cluster sample will be applied as a taxable percentage to any p-card transactions that were randomly drawn in the stratified random sample rather than individually examining those purchases. No further credit for tax paid will be applied to these transactions since tax credit is encompassed in the cluster sample as outlined above.

AGREEMENT LETTERS

(ACTUAL)

The universe of all transactions was condensed into two "target populations" for the initial determination of all purchases that have relevance to taxability. The first target population will consist of expensed procurement card and accounts payable transactions from business unit A while the second will consist of procurement card and accounts payable transactions for business unit B.

AGREEMENT LETTERS

(ACTUAL)

Procurement card purchases (hereafter referred to as p-cards) were all charged to multiple accounts. These transactions were not handled in the traditional sense since taxpayer seldom issued exemption certificates to suppliers when items purchased were non-taxable. Therefore, tax may have been paid on several transactions that qualified for tax exception. As a result, this account will be tested separately using a simple block sample. Three months will be selected as the sample period. The total tax deficient listings for the sampled period will be divided by the total of all sampled transactions to determine the tax deficient percentage. This percentage will then be applied to all audit period purchases within the related account to determine the total projected taxable amount for the entire audit. The applicable tax rates will be equitably applied based on the counties wherein errors existed to determine the total audit period tax liability due or overpaid on p-card purchases.

AGREEMENT LETTERS

(ACTUAL)

The universe of all transactions was condensed into a "target population" for the initial determination of all purchases that have relevance to taxability. A summary by account of the agreed upon target population for the general ledger data is set forth in Exhibit A. This will include "P-card" accounts as the goal is to achieve a single rate per plant location.

AGREEMENT LETTERS

(ACTUAL)

Additionally, it was mutually agreed to leave in the download all P-card transactions and inventory stores withdrawals as these items are charged directly to actual accounts.

AGREEMENT LETTERS

(ACTUAL)

Procurement card purchases (hereafter referred to as p-cards) were not handled in the traditional sense since taxpayer seldom issued exemption certificates to suppliers when items purchased were non-taxable. Therefore, tax was paid on several transactions that qualified for tax exception. As a result, p-cards will be tested separately using a stratified random sample with only one sampled range and the other range to be comprehensively reviewed for any transactions over \$9,999.99. Two hundred transactions will be randomly selected for the sampled range.

AGREEMENT LETTERS

(ACTUAL)

This is an agreement between the Ohio Department of Taxation and Taxpayer hereinafter collectively referred to as *Parties*. The purpose of this agreement is to establish the basis for the statistical methodology and sampling plan for the credit card purchases. The direct pay account number is 98000000. This agreement signed by the *Parties* covers the period of 07/01/2002 through 06/30/2005.

<u>Stratum</u>	<u>Sample Size</u>	<u>Range Values</u>
1	250	\$0.00 to \$224.99
2	250	\$225.00 to \$999.99
3	133 (100%)	\$1,000.00 and above

AGREEMENT LETTERS

(ACTUAL)

A basement range has been added to the sample design and includes all transactions of less than five dollars (\$5.00). This level contains 15,451 transactions that total \$28,816.56. The majority of these transactions (10,439) are Purchase Card (P-Card) transactions from account XXXX and were for postage from UPS, Federal Express or the US Postal Service. The audit sample ratio determined for stratum one will be applied to this basement level to arrive at its taxable purchases (See section "Calculation of Taxable Purchases for Audit Period" for additional instructions.)

AGREEMENT LETTERS

(ACTUAL)

Procurement card purchases (hereafter referred to as p-cards) are made by all departments for supplies and miscellaneous expenses and charged to account #XXXX. These transactions were not handled in the traditional sense since taxpayer seldom issued exemption certificates to suppliers when items purchased were non-taxable. Therefore, tax was paid on several transactions that qualified for tax exception. As a result, this account will be tested separately using a block sample for April through June 2005. The total tax deficient listings for the sampled period will be divided by the total of all sampled transactions to determine the tax deficient percentage. This percentage will then be applied to all audit period purchases in account #XXXX to determine the total projected taxable amount for the entire audit. The applicable tax rates will be equitably applied based on the counties wherein errors existed to determine the total audit period tax liability due or overpaid on p-card purchases.

AGREEMENT LETTERS

(ACTUAL)

Procurement card purchases were all charged to account #XXXX. A separate procedure was established by taxpayer for procurement cards. Cardholders are instructed to tell vendors to collect taxes. This account will be reviewed to verify that taxes were collected at the point of sale by the vendor. Accordingly, a separate block sample (March, 2003 and September, 2004) of account #XXXX will be conducted. Purchases made with procurement cards will not be included in the target population. The tax deficient amounts for these two months will be totaled and divided by the total activity for the two months to determine the taxable deficiency percentage for the two months. This percentage will be applied to the audit period activity for the account to determine the audit period taxable deficient amount. The appropriate tax rate(s) will be applied. In the event of a sales tax overpayment, taxpayer will file a refund claim (form AR) in accordance with the O.R.C. 5739.07 and 5741.10.

AGREEMENT LETTERS

(ACTUAL)

Taxable transactions selected in the sample upon which tax was properly paid using procurement cards (Vendor Name: Bank One) (Vendor Code: 37598) and (Vendor Name: US Bank Corporate Payment Sys) (Vendor Code: 65619) will be treated as non-errors. All other taxable items will be coded as positive amounts

AUDITING PROCUREMENT CARDS (P-CARDS)

Questions??????????